

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58240

CITY OF KAHLOTUS

Franklin County, Washington

January 1, 1994 Through December 31, 1995

Issue Date: May 30, 1997

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CITY OF KAHLOTUS
Franklin County, Washington
January 1, 1994 Through December 31, 1995

**Independent Auditor's Report On Compliance With State
Laws And Regulations**

Mayor
City of Kahlotus
Kahlotus, Washington

We have audited the financial statements, as listed in the table of contents, of the City of Kahlotus, Franklin County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, and have issued our report thereon dated March 18, 1997.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the city's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests indicated that, with respect to the items tested, the city complied, in all material respects, with the applicable laws and regulations referred to in the preceding paragraphs. However, we noted instances of noncompliance of regulatory requirements immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 18, 1997

CITY OF KAHLOTUS
Franklin County, Washington
January 1, 1994 Through December 31, 1995

Schedule Of Findings

1. The City Should Provide Adequate Documentation For Claims

Our testing of city claims for the months of April, May, and June 1995 noted the following problems with the supporting documentation:

- The quarterly payment to Washington State Department of Labor and Industries for industrial insurance coverage did not have documentation attached.
- A payment to the Washington State Department of Revenue did not have documentation attached.
- Monthly payments remitting federal withholding, Social Security, and Medicare did not have supporting documentation.
- An invoice for door parts of \$1,057 was attached to a voucher for \$981 without explanation of the difference.
- A duplicate invoice was paid in April as a purchase of cold mix and again paid in May as a purchase of paint.
- Annual dues paid to the clerk's association did not have supporting documentation.
- Payments to AWC for the clerk's health insurance did not have supporting documentation.
- A \$30 payment to District Court for filing small claims did not have supporting documentation.
- A \$3,515 payment for 3 months garbage service did not have supporting documentation.

RCW 43.09.200 states:

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction.

Without adequate supporting documentation attached to the vouchers, the validity of the transactions cannot be substantiated.

The city had numerous personnel changes in the clerk/treasurer position during the period under audit.

We recommend the city improve voucher documentation by attaching the original supporting documents to the voucher or noting on the face of the voucher the location of the supporting documentation.

Auditee's Response

The City Clerk/Treasurer will attach supporting documentation to the monthly vouchers.

2. The City Should Reconcile The Treasury Records To The Banking Records On A Monthly Basis And Correctly Report Fund Resources On The Year-End Report

Our review of treasurer reports submitted to the city council noted inadequate reconciliation of the banking activity to the monthly treasury reports. By the end of the period under audit, the city checking account contained \$8,176 more than reported by the treasurer's reports. The city's originally issued 1994 and 1995 annual reports omitted the \$8,176. The 1994 and 1995 statements contained in this audit report, were modified to account for this additional resource.

RCW 43.09.200 states:

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction.

By not performing the reconciliations properly, errors or irregularities could occur and not be identified in a timely manner.

The city had numerous personnel changes in the clerk/treasurer position during the period under audit. In addition, the city lacked a reconciliation system that ensured all receipts deposited to the checking account were properly accounted for in the monthly treasurer's reports. The financial exhibits that accompany this audit report have been revised to reflect the additional cash receipts.

We recommend the city implement reconciliation procedures to ensure that all receipts are accounted for in the monthly treasury reports.

Auditee's Response

The Clerk/Treasurer is now reconciling all monthly treasury reports to the bank statements each month. Now that a correct beginning fund balance has been established, the Clerk/Treasurer can provide the City Council with accurate monthly reports.

3. The City Records Detailing Credit Postings To Individual Utility Accounts Should Be Retained And Should Be Reconciled To The Treasurer's Receipts

Our testing of the utility account records for the month of March 1995 noted a \$1,207 difference as shown by the following discrepancy between the treasurer's receipts and the amounts posted to individual accounts:

Treasurer's receipts for payments on account totaled \$3,583. Credits posted to individual accounts totaled \$2,376.

RCW 43.09.200 states:

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction.

Proper maintenance of the individual utility accounts is necessary to assure that customer payments are properly credited to their accounts.

The city had numerous personnel changes in the clerk/treasurer position during the period under audit.

We recommend the city treasurer implement the internal controls necessary to ensure that all utility payments received in a month are credited to the appropriate accounts.

Auditee's Response

The City Clerk/Treasurer will provide City Council with monthly financial reports that reconcile credits to individual accounts to bank deposits.

Auditor's Concluding Remarks

We would like to thank the city for their timely response to our findings. Based upon their response, we believe the issues are being addressed. We will review these areas in our subsequent audit.

We would also like to take this opportunity to express our appreciation for the assistance and cooperation we received throughout the audit.

CITY OF KAHLOTUS
Franklin County, Washington
January 1, 1994 Through December 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. The City Should Establish Written Cash Handling Procedures

Resolution: As of the time we commenced this audit work in December 1996, the city did not have written cash handling procedures. See Finding 2.

2. Annual Financial Reports Should Be Prepared And Submitted Within The Prescribed Report Period

Resolution: See Finding 2.

CITY OF KAHLOTUS
Franklin County, Washington
January 1, 1994 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Mayor
City of Kahlotus
Kahlotus, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of the City of Kahlotus, Franklin County, Washington, for the fiscal years ended December 31, 1995 and 1994. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the city prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the City of Kahlotus for the fiscal years ended December 31, 1995 and 1994, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Long-Term Debt are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 18, 1997